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SUBJECT: KENYA'S ROADS -- TURNING THE CORNER ON A NATIONAL DISGRACE?

Ref: A. Nairobi 5102, B. Nairobi 2435

Sensitive-but-unclassified. Not for release outside USG channels.

¶1. (SBU) Summary: Kenya's road system is a national disgrace and a major drag on the economies of both Kenya and the broader region. Three years after coming to power, the Kenyan government of Mwai Kibaki has little to show in terms of meeting its promises to rebuild the country's long-neglected infrastructure and improve governance in the graft-ridden roads sector. This may finally change in 2006, however, as several major road projects commence construction. Of greatest importance are a series of related contracts under World Bank auspices to rehabilitate 220 miles of the Northern Corridor road network, which connects the port of Mombasa with all points north and west. End summary

Kenya's Road System: A National Disgrace

¶2. (SBU) The appalling condition of Kenya's roads is widely seen as a national disgrace, and for visitors and natives alike, it is perhaps the most glaring and bone-jarring reminder of the more general failure of the Government of Kenya (GOK), past and present, to provide even basic public goods and services to its citizens. Forty-seven percent of Kenya's 39,000 mile "classified" (i.e. national-level) road system is currently in a "failed condition" according to a joint GOK/donor statement in April, 2005. How "failed" is defined is unclear, but anecdotal evidence suggests a far greater proportion of all roads are in bad shape. Bad roads constitute perhaps the greatest physical barrier to economic growth and development in Kenya.

¶3. (SBU) Most mind-boggling is the utter neglect of even the most critical roads and highways - those that form the very lifeblood of the national and regional economy. The "Northern Corridor" is the road and rail network linking the port of Mombasa to Nairobi, and from there to the major cities of western Kenya and Uganda. As such, it is the economic lynchpin for the entire region. As noted ref B, the final 25 mile stretch of the Nairobi-Mombasa Highway

closest to Mombasa and its vital port is a bone-jarring nightmare, "a safety disaster and a civil engineering disgrace."

¶4. (SBU) Further inland and to the north of Nairobi, a section of the same northern corridor connecting Naivasha and Nakuru, two of the country's most popular tourist destinations, is in tatters. Speeds are reduced to a crawl, and heavy trucks seek to avoid potholes and crumbling pieces of tar by driving on the dirt shoulders (also potholed), thereby kicking up a continuous cloud of dust that can be seen for miles around. Nearby, a lengthy section of the secondary road connecting Naivasha town to the tourist sites around Lake Naivasha is a gray moonscape of crater-sized potholes. The area has also become the center of the dynamic floriculture industry in Kenya, nQhe country's 3rd largest export earner. For this industry, transit times to the airport, from where the flowers are flown directly to markets for sale in European cities the next day, are critical. Companies in the area have offered to rebuild the road, but the GOK in its wisdom has spurned all such generosity. The list of maddening examples of neglect and inaction on fixing the roads goes on and on.

The Very High Cost of Bad Roads

¶5. (SBU) The horrific state of Kenya's roads is a near-lethal drag on the country's economic development. First, poor roads generate an implicit, dead-weight direct tax on businesses in every sector of the economy. A survey conducted in late 2004 found that delivery delays result in product refusals and returns worth 2.5% of sales for Kenyan

companies. The same study showed a quarter of firms surveyed in Kenya pay to build and/or repair local roads. In Nairobi, which generates 52% of the country's GDP, a transport survey conducted in 2004 found that "inefficiencies" at 16 key intersections subtracted an astonishing 1.8% from the country's GDP - a sum equal to 20% of Kenya's total development expenditures. The country loses an estimate $80 million annually, or around 0.7% of GDP, due to costs resulting from traffic accidents.

¶6. (U) Bad roads are equally if not more devastating to agriculture and the rural economy. A World Bank study found that 20% of the price of agrochemicals, a key input for agricultural production, consisted of transport costs, vs. a worldwide average of 8-10%. Transport costs also account for nearly 70% of total costs in floriculture, and 35% in coffee. Even more ominous in terms of Kenya's increasingly tenuous food security is the inability to deliver life-saving food and water to the currently drought-stricken Northeastern and Coast provinces because of the horrendous condition of roads there. Virtually none of the road in these less developed provinces have ever been tarmacked.

¶7. (SBU) The indirect, macro-costs of bad roads are probably just as great. Bad roads and the high costs they generate are a key factor (among many others) behind the country's poor record in attracting more foreign investment, in the infrastructure sector itself (where the GOK is not yet seen as serious), but also in all other sectors, as well. In short, bad roads make Kenya less competitive globally, hobble private sector-led growth, and contribute a great deal to the country's poor investment climate. And bad roads don't just hurt Kenya. Because of the strategic location of Mombasa port, the economic fate of Kenya's neighbors, including Uganda, Rwanda, and southern Sudan, are in many ways tied to the quality and efficiency of Kenya's road network.

Roads Go Downhill in the 1990s

¶8. (SBU) Many Kenyans and long-term foreign residents claim

very little has been done to expand and maintain the country's road network since independence in 1963. While that may be true, it appears the most serious slide in road quality began in the 1990s, a decade of runaway mismanagement and corruption under the regime of former President Daniel arap Moi. A series of negative political and economic trends conspired to cause a steep drop in public investment during the decade, exacerbated by sharply lower levels of donor assistance. The reduction in public investment was especially acute in infrastructure, including roads. Added to this were heavy El Nino-related rains that caused widespread damage to roads in the late 1990s.

The Straight Line Between Graft and Potholes

¶9. (SBU) Throughout Kenya's history, corruption in the procurement process for road construction has also been a major factor behind poor roads. "Cowboy contractors," in cahoots with officials from the Ministry of Roads and Public Works (MRPW), have long taken advantage of non-transparent procurement procedures and non-existent institutional oversight to fleece the taxpayer by rigging bids and/or failing to build roads to the quality standards called for. In 2005, the Ministry reportedly dismissed six engineers when it was discovered they were also running construction companies with contracts with their own ministry. As one EU official put it: "They were signing the contracts on the 12th floor in the morning, and picking up their checks on the 3rd floor on their way home." This kind of pervasive graft, plus the lack of a "maintenance culture," has meant that even roads built or rehabilitated relatively recently are often already in deplorable shape.

New Government, New Roads? Not So Fast

¶10. (SBU) The election in 2002 of a coalition government whose platform rested on the twin pillars of improved governance and economic reform brought high hopes that Kenya's road system would at long last be overhauled. Indeed, the new GOK's Economic Recovery Strategy (ERS) emphasizes the importance of infrastructure and the rehabilitation and extension of the road system to foster economic development and reduce poverty. Unfortunately, tangible progress on improving roads has been frustratingly slow.

¶11. (SBU) In fact, three years after the current government came to power, there has been very little actual work done on the country's key roads, and the private sector continues to routinely put poor infrastructure at or near the top of its list of barriers to lower costs, higher growth, and increased investment. While the GOK claims it has reduced the percentage of roads in poor condition from 45% to 25% since it took office, it is unclear what this means in practice. The GOK's own ERS annual progress report for 2003-04 states that only 117 miles of paved roads have been rehabilitated, while 50 and 815 miles of dirt roads have been re-graveled and graded respectively.

Funding A Constraint, But So Is Governance

¶12. (SBU) Money is certainly one constraint. The neglect of the 1990s left Kenya with a massive backlog of urgently needed road rehabilitation projects that the GOK has estimated will cost $1.3 billion. This is set against an annual development budget for road rehabilitation that is a around a tenth this amount, or $160 million. Already, the GOK only covers a sixth of this budget itself, with the balance being funded by donors, principally the World Bank, the EU, and the African Development Bank.

¶13. (SBU) Since donors have returned to help, the delays now being experienced in road rehabilitation cannot be explained solely by the lack of financial resources, however. Long-standing institutional and capacity constraints and poor governance are also major factors. In road maintenance, for example, the GOK has long collected a Roads Maintenance Fuel Levy, equal to about 10% of the price of gas at the pump. The fuel levy generates revenues of around $125 million each year - a substantial sum - that is divvied up by the Kenya Roads Board among the MRPW for maintenance of the classified road network, and also among scores of district and local authorities for roads under their jurisdictions. In the end, little money appears to trickle down in and take the form of actual road maintenance. Money is also misspent because of an emphasis on reconstructing roads that are already beyond repair. No priority is given to routine, periodic maintenance of roads still in decent shape. Thus, even the country's few good roads eventually deteriorate to the point of requiring far more costly capital investments for rehabilitation.

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2006: Turning the Corner on the Road to Better Roads?
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¶14. (SBU) In his Jamhuri Day address on December 12, President Kibaki touted 35 major road construction projects that are underway in Kenya. Again, there is little visible evidence of such progress yet, but by many accounts 2006 may be the year Kenya at last begins to actually lay down substantial quantities of bitumen to rehabilitate its most vital roads.

¶15. (SBU) At the top of the list are a series of planned projects on various segments of the crucial Northern Corridor road system. Under the World Bank-managed $275 million Northern Corridor Transport Improvement Project, co-funded by the Bank, bilateral donors, and the GOK itself,

223 miles of the Northern Corridor road system will be rehabilitated, including a key 25 mile chokepoint outside Mombasa (see para 3 above). Also slated for major rehabilitation are 55 miles of the same narrow, battered, dangerous highway further north linking Sultan Hamud to Machakos and Jomo Kenyatta International Airport on the outskirts of Nairobi. The project also includes 62 miles of the corridor north and west of Nairobi in the region around Nakuru, Kericho, and Kisumu. According to a recent internal World Bank aide-memoire, contracts for each of these segments have been awarded and construction is expected to commence early in 2006.

¶16. (U) The GOK is also resuscitating 20 year-old plans for the rehabilitation of that section of the Northern Corridor that runs through Nairobi proper. The plan involves expanding the current road running through downtown Nairobi, and more crucially, building a new bypass highway to Limuru. This would decongest the city and speed travel times for shippers and motorists destined for points further north (e.g. Uganda) or south (e.g. Mombasa) of Nairobi. Recognizing that traditional GOK and donor funding is not adequate for such a large project, the GOK is planning to concession the bypass road to the private sector. While this will require amending existing legislation, the GOK has already pre-qualified potential investors and has initiated the hiring process for a transaction advisor for the project.

Next Priority: Rural Roads

¶17. (U) The GOK is also looking at secondary roads that feed into the Northern Corridor, including an African Development Bank-assisted project to rehabilitate 84 miles of the dirt track road running between Isiolo and Merille, and to study the feasibility of extending this road further, all the way to Moyale, on the Ethiopian border, which, in

theory is an extension of one of the continent's main land arteries, connecting East Africa to Cairo. Also in rural areas, the GOK with donor support is moving ahead with its Roads 2000 maintenance strategy, which aims to kill two birds (improving rural roads and reducing rural poverty) with one stone by doing selective rehabilitation and spot improvements on country roads using largely labor-based methods.

Comment

¶18. (SBU) The good news is that at very long last, some major road rehabilitation projects look set to begin in ¶2006. The initial steps in rehabilitating the Northern Corridor, once finished in the next 12-24 months, have the real potential to lower costs and make both the national and regional economies more competitive, particularly in tandem with the recent privatization of the Kenya-Uganda railway system (ref A). Longer term, to make sure the roads are maintained, that others are rehabilitated, and that new ones are constructed, Kenya will need to restructure and reform the institutional framework for the way it manages and finances its road system. Already, reform plans are in motion and donor support in place. The key to maintaining the reform momentum in the roads sector, as in so many others, will be the provision of focused leadership and political will from the top of the government. In light of the current unstable state of leadership politics in Kenya, we should not expect any faster progress than we have seen over the past three years under the current Kibaki administration. In other words, there will be more progress, but it will continue to be painfully slow in coming.
Bellamy